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DE RUEHSO #1082/01 2841253
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FM AMCONSUL SAO PAULO
TO RUEHC/SECSTATE WASHDC PRIORITY 5889
INFO RUEHBR/AMEMBASSY BRASILIA 6940
RUEHRG/AMCONSUL RECIFE 3165
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RUEHMN/AMEMBASSY MONTEVIDEO 2173
RUEHBU/AMEMBASSY BUENOS AIRES 2486
RUEHSG/AMEMBASSY SANTIAGO 1880
RUEHLP/AMEMBASSY LA PAZ 3056
RUEHCV/AMEMBASSY CARACAS 0392
RUEHAC/AMEMBASSY ASUNCION 2799
RHEHNSC/NSC WASHDC
RUCPDOG/USDOC WASHDC 2591
RUEATRS/DEPT OF TREASURY WASHDC
RUEHC/DEPT OF LABOR WASHDC

UNCLAS SECTION 01 OF 03 SAO PAULO 001082

SIPDIS

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DEPT FOR WHA/BSC, WHA/EPSC, EB
STATE PASS TO USTR FOR SCRONIN/MSULLIVAN
STATE PASS EXIMBANK
STATE PASS OPIC FOR MORONESE, RIVERA, MERVENNE
NSC FOR FEARS
USDOC FOR 4332/ITA/MAC/OLAC
USDOC FOR 3134/USFCS/OIO
USDOC ALSO PASS PTO/OLIA
TREASURY FOR OASIA, DAS LEE AND JHOEK
AID/W FOR LAC/AA

E.O. 12958: N/A

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SUBJECT: AMBASSADOR SOBEL MEETS WITH PRIVATE SECTOR IN SAO PAULO

SUMMARY

¶1. (U) Ambassador Sobel met with various business leaders and organizations during his September 26-28 visit to Sao Paulo. Septels report on Ambassador Sobel's meetings on education during this visit and his inauguration of a USAID-sponsored development project. The leader of an important industrial think tank (IEDI) told him that the GoB was listening more to industry's concern than in the past. On the margins of this meeting, the Ambassador met briefly with the Finance Minister. At an informal dinner, the leaders of many U.S. companies reported that business has been good, but a few reported a difficult year. The head of Cargill told him that Brazil's competitive advantage in ethanol production is disappearing. Council members of the Brazil Competitiveness Movement (MBC) stressed the need to improve government efficiency in Brazil to address institutional weaknesses and reduce bureaucracy. In all his meetings, the Ambassador stressed the importance of partnerships and advocated closer engagement and cooperation. END SUMMARY.

JOSUE GOMES DA SILVA

¶2. (U) Ambassador Sobel, accompanied by Econoff, met September 26 with Josue Gomes da Silva, President of Coteminas, one of the largest textile manufacturing companies in Brazil, and son of Vice President Jose Alencar. Coteminas is one of the world's lowest-cost textile producers (thread, semi-finished and finished fabrics, home textiles, clothing) with reported 2005 sales of USD 500 million and a work force of 12,000. The group owns 13 manufacturing mills located mostly in northern Brazil. This year, Coteminas merged with

US-based Springs Industries to create Springs Global, the world's largest manufacturer and supplier of home furnishings.

13. (U) Da Silva is also the president of several economic and industry-related research institutes, among them the Institute for Studies of Industrial Development (IEDI). IEDI is composed of 45 presidents, owners and majority shareholders of various companies. IEDI confers with similar organizations such as the Sao Paulo state Federation of Industries (FIESP) on industrial issues. The Ambassador questioned several of the board members present on the response of the Brazilian Government to their industrial needs and concerns. The initial response was that there was no major change; however, Da Silva added that at least the government is now listening to them seriously. The general consensus was that international trading is a recent phenomenon of the last 20 years, and it is now the role of government to create the appropriate infrastructure for continued growth and expansion.

14. (U) The IEDI board had a prior meeting with the Minister of Finance, Mr. Guido Mantega. Upon the Ambassador's arrival, he had the opportunity to exchange a few words informally with the Finance Minister as well. Da Silva is of the opinion that Minister Mantega is completely aligned with the philosophy of IEDI, supporting production, more growth, better trade practices, and "common sense" for industry.

15. (U) In further conversation with Da Silva, the Ambassador discussed the Brazilian Competitiveness Movement (MBC - see paras 16-17) and the need for both U.S. and Brazilian companies to meet, engage and strategize on corporate responsibility programs. Da Silva concurred and agreed to produce shortly a list of approximately 10 company leaders for a future dinner party to be hosted by the Ambassador.

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PAULISTA DINNER GROUP

16. (U) The Ambassador had dinner September 26 with members of the Paulista dinner group. This is an informal association of Sao Paulo businessmen heading American companies "organized for social and business information purposes." Many of the members have regional responsibilities as well. In contrast with Amcham, this group does not have working groups and does not take formal positions on issues, preferring to keep a low profile. However, many members exchange ideas on how to approach the GoB on issues that affect their companies' interests. There are 15 members, including the Consul General. While the Group informally selects its members (normally on a two-year rotational basis), it tries to maintain a balance among different sectors.

17. (U) The members present were generally upbeat in their assessment of the current situation and future growth prospects, despite the difficult business climate that they face in Brazil. Colgate Palmolive's representative said 2006 would likely be the company's best year ever in Brazil. Similarly, 3M reported that 2005 was a record year for the company and predicted another good year in 2006. GE Brazil reported 40% growth in 2005 and 24% growth during the first half of this year. While GE expects solid growth for the next several years, there is concern beyond that due to Brazil's serious infrastructure problems.

18. (U) Ford noted that 2005 was the company's best year in Brazil since starting operations in 1919. Much of this growth is due to the popularity of Ford's flex-fuel models, which now account for 70% of sales volume. Caterpillar reported that 2005 was also its best year in Brazil and that this year looks even better, mostly due to booming exports to the U.S., Europe and the Middle East. Citibank's chief said the bank is in the midst of a major expansion that will double the number of branch offices in Brazil. This reflects Brazil's growing consumer finance market.

19. (SBU) On the other hand, Eli Lilly indicated that the pharmaceutical sector has been flat, in part due to government price

controls. Prisma Energy (recently bought by Ashmore Energy) also sounded a sour note, expressing concern about possible energy shortages in Brazil in 2009-10. Much will hinge on government improvements in the regulatory environment, along with weather; if there is a prolonged drought, the country could face a serious energy crisis.

¶10. (U) The Ambassador stressed the importance of corporate social responsibility (CSR), adding that Mission Brazil could help U.S. companies showcase their CSR programs. He also noted that the Embassy and Consulate Sao Paulo planned to host a CSR roundtable in Sao Paulo on October 18, which would explore ways in which the Embassy and Consulates could work together on CSR issues. (NOTE: Most of the companies represented in the Paulista dinner group have been invited to participate in the CSR roundtable. END NOTE.)

CARGILL

¶11. (U) Ambassador Sobel, accompanied by Agricultural Trade Office Director, met with Sergio Barroso on September 27. Barroso has been President of Cargill Agricola, S.A. for eight years. Discussion focused on the keys to Brazil's competitiveness in agriculture and prospects for national and regional growth in ethanol production.

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¶12. (U) Ambassador Sobel began by asking Barroso what the keys are to Brazilian agricultural competitiveness. Barroso responded that they include land, climate and production know-how. He noted that low labor costs and social conditions were also important. Barroso went on at some length to stress that Brazilian know-how and technology are extremely advanced for sectors such as soy and sugar production, but lag behind for production of other crops, such as corn.

¶13. (U) On the subject of sugarcane production and ethanol, Barroso credited recent production gains to better cultivation techniques and fertilizer applications. He also reminded the Ambassador not to discount the importance of sugar to cane producers, noting that sugar is currently more remunerative than ethanol, and that with increased land prices in Brazil and more efficient production practices in the U.S., Brazil's competitive advantage in ethanol production is disappearing.

¶14. (SBU) In response to inquiries from the Ambassador, Barroso expressed skepticism about the entry of Petrobras into ethanol production and marketing, while acknowledging that the industry has built a reputation for itself as an unreliable supplier. Barroso further noted that outside of Brazil and the U.S., he has seen few solid opportunities for investment in the biofuels sector. He promised to recommend participants for a roundtable on ethanol that the Ambassador plans to convene.

BRAZILIAN COMPETITIVENESS MOVEMENT COUNCIL MEETING

¶15. (SBU) Ambassador Sobel also attended a meeting September 27 with the Brazilian Competitiveness Movement Council (MBC). Founded in 2001, MBC is a Brazilian non-profit organization that aims to improve the competitiveness of the private and public sectors. Among the meeting participants were Jorge Gerdau Johannpeter, founder of MBC and President of Brazil's largest steel company (Note: Gerdau has been invited to participate in a second term Lula administration. End Note), and the directors from General Electric, Merck Sharp and Dohme, Beckton Dickenson, American Express, Petrobras, Odebrech, and Suzano. Ambassador Sobel, in his remarks, stressed the importance of partnerships as a means of sharing experiences and ideas. In particular, Ambassador Sobel expressed the Embassy's interest in furthering its cooperation with MBC.

¶16. (U) Following the Ambassador's remarks, several MBC Council

members commented on the need to improve government efficiency in Brazil. They referred to the World Economic Forum Global Competitiveness Report launched earlier that day, in which Brazil dropped nine positions mainly as a result of its weak institutional environment, bureaucracy, red tape, and corruption. They also discussed, education, particularly the need to further cooperation between businesses and universities. Several ideas came to the fore, including an MBC-U.S. Council on Competitiveness joint conference in 2007, and the possibility of connecting the MBC to the U.S. President's Council of Advisors on Science and Technology (PCAST). The Ambassador asked the MBC Council members to reflect on these ideas and proposed to continue discussion in a meeting - yet to be scheduled - in Brasilia.

¶17. (U) This cable was coordinated with Embassy Brasilia, and was cleared by Ambassador Sobel.

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